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OSCODA-WURTSMITH AIRPORT AUTHORITY  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2008



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November 14, 2008

Independent Auditors' Report

Members of the Authority Board  
Oscoda-Wurtsmith Airport Authority  
Iosco County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Oscoda-Wurtsmith Airport Authority, Iosco County, Michigan, as of and for the year ended September 30, 2008, which collectively comprise the Authority's basic financial statements, as listed in the index. These financial statements are the responsibility of the Oscoda-Wurtsmith Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the the business-type activities of the Oscoda-Wurtsmith Airport Authority, Iosco County, Michigan, as of September 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Stephenson, Gracik & Co., P.C.*



## OSCODA-WURTSMITH AIRPORT AUTHORITY

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Oscoda-Wurtsmith Airport Authority**, (the Authority) we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2008.

#### Financial Highlights

- The Authority's assets exceeded its liabilities by \$28,088,421 (*net assets*) for the fiscal year reported. Of this amount, \$1,704,650 (*unrestricted net assets*) represents the portion available for spending.
- The Authority's total current liabilities decreased by \$1,168,498 over the course of the year's operations. This decrease was a result of the Authority recognizing \$1,421,321 of prior year deferred revenue as earned in the current year.
- The Authority's total net assets increased by \$2,260,488 or 9% over the course of the year's operations. This increase was mainly a result of the Authority recognizing a state grant of \$2,730,978 from the Michigan Department of Transportation for the construction of a large aircraft maintenance hangar. The Authority also received capital contributions of \$76,732 consisting of land improvements from state contract grants administered by the Michigan Department of Transportation.
- The Authority's operating expenses in fiscal year 2007/2008 were \$38,626 lower than fiscal year 2006/2007 due to decreases in building maintenance and increases in other various expense line items.
- The Authority's operating revenues in fiscal year 2007/2008 were \$277,164 higher than fiscal year 2006/2007 mainly due to an increase in building rental income for hangar 8 of \$208,333.

#### Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

#### Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

## Analysis of Financial Position:

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

## Summary of Net Assets:

The following summarizes the net assets of the Oscoda-Wurtsmith Airport Authority:

|                            | <b>Net Assets Summary</b>        |                                  |
|----------------------------|----------------------------------|----------------------------------|
|                            | <b><u>September 30, 2008</u></b> | <b><u>September 30, 2007</u></b> |
| Current Assets             | \$ 1,753,110                     | \$ 3,399,627                     |
| Capital Assets – net       | <u>30,343,007</u>                | <u>27,631,272</u>                |
| <b>Total Assets</b>        | <b><u>32,096,117</u></b>         | <b><u>31,030,899</u></b>         |
| Current Liabilities        | 3,993,914                        | 5,162,412                        |
| Long-Term Liabilities      | <u>13,782</u>                    | <u>40,554</u>                    |
| <b>Total Liabilities</b>   | <b><u>4,007,696</u></b>          | <b><u>5,202,966</u></b>          |
| <b>Net Assets</b>          |                                  |                                  |
| Invested in Capital Assets | 26,383,771                       | 24,711,452                       |
| Unrestricted               | <u>1,704,650</u>                 | <u>1,116,481</u>                 |
| <b>Total Net Assets</b>    | <b><u>\$ 28,088,421</u></b>      | <b><u>\$ 25,827,933</u></b>      |

## Capital Asset and Debt Administration

**Capital assets.** The Authority's investment in capital assets as of September 30, 2008, amounted to \$30,343,007 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment and construction in progress. Capital assets for the Authority increased by \$3,866,387. Buildings and improvements increased as a result of federal project grants being completed in the current year. Construction in progress increased due to costs incurred through September 30, 2008 in conjunction with the state project grants that were not completed in the current year. Land improvement increases include various improvements to airport runways, taxiways, lights, hangers and aprons. Machinery and equipment increase represents



purchases of various equipment. Total depreciation expense for this year amounts to \$1,150,975 with ending accumulated depreciation being \$9,229,856.

**Capital Assets Summary**  
(Net of depreciation)

|                             |                             |
|-----------------------------|-----------------------------|
| Land                        | \$ 1,614,313                |
| Construction in progress    | 8,852,741                   |
| Land improvements           | 7,225,167                   |
| Buildings and improvements  | 12,413,414                  |
| Machinery and equipment     | <u>237,372</u>              |
| <b>Capital Assets - net</b> | <b><u>\$ 30,343,007</u></b> |

Additional information on capital assets can be found in Note 3 of the audit, notes to financial statements.

**Compensated Absences.** Compensated absences for the Authority at fiscal year end amount to \$13,782. This is the accumulated amount of benefits set aside for vested employees. Accrued leave benefits are shown as a liability on the financial statements.

**Summary of Revenues and Expenses:**

The following summarizes the revenues and expenses of the Oscoda-Wurtsmith Airport Authority :

|                           | <u>September 30, 2008</u> | <u>September 30, 2007</u> |
|---------------------------|---------------------------|---------------------------|
| Operating revenues        | \$ 1,153,647              | \$ 876,483                |
| Non operating revenues    | <u>2,937,092</u>          | <u>2,609,958</u>          |
| Total revenues            | <u>4,090,739</u>          | <u>3,486,441</u>          |
| Depreciation expense      | 1,150,975                 | 1,090,037                 |
| Other operating expense   | <u>756,008</u>            | <u>855,572</u>            |
| Total expenses            | <u>1,906,983</u>          | <u>1,945,609</u>          |
| Gain before contributions | 2,183,756                 | 1,540,832                 |
| Capital contributions     | <u>76,732</u>             | <u>1,654,936</u>          |
| Change in Net Assets      | 2,260,488                 | 3,195,768                 |
| Beginning Net Assets      | <u>25,827,933</u>         | <u>22,632,165</u>         |
| Ending Net Assets         | <u>\$ 28,088,421</u>      | <u>\$ 25,827,933</u>      |

**Economic Factors and Next Year's Budget and Rates**

The management of the Authority considered many factors in setting the fiscal year 2008/2009 budget. The overriding factor has been to keep expenses at or below the amount of revenue. The Authority does not receive any operations or maintenance income from taxes or other outside sources, and is dependent on generating its own operating funds. With the exception of FAA Airport Improvement Grants designated for specific projects, the vast majority of revenue comes from rental of facilities and fees imposed for certain aeronautical activities. Since the Authority's creation in 1994, revenue has varied from year to year. This is due to the turnover of the major aviation tenants, and the fallout of the 9/11 economic downturn, especially in aviation. Since 2003 there has been a slow but steady increase in the airport's revenue stream. Demand for additional wide-body aircraft hangar facilities by the Authority's main aviation tenant caused the Authority to pursue funds in the amount of \$8.75 million to construct such a hanger. As a result of that effort, MDOT granted \$5 million to the Authority for construction of a wide body aircraft hanger. The tenant has committed to prepayment of 18 years rent in the amount of \$3.75 million to be used for construction of the hanger that

was paid for up front and the hangar construction was substantially completed in February 2008, with project close out continuing. This additional hangar has lead to 200-300 more skilled workers, as well as enhanced the opportunity to attract other aircraft support industries and suppliers.

During FY2008, several grants were approved by the following companies and agencies for the following amounts:

|  |             |
|--|-------------|
| Economic Development Administration (EDA)        | \$3,000,000 |
| Michigan Economic Development Corporation (MEDC) | \$1,500,000 |
| Iosco County Revolving Loan/Grant Fund           | \$ 100,000  |
| Kalitta Air, LLC                                 | \$ 150,000  |

The above amounts are anticipated to be spent during FY2009/2010 for additional infrastructure support work for and around Hangar 8 and energy efficiencies to three hangars (Hangars 2, 4 and 5) currently leased to Kalitta Air.

The most significant expense remains employee related costs. Following are the fixed costs, such as, utilities and insurance. The remaining portion of the budget is prioritized and divided into the operating expense categories such as supplies and services, maintenance, and capital improvements. In addition, every attempt is made to retain a surplus to cover contingencies and the local share of current and any future grants the Airport is seeking and may be awarded.

**Requests for Information**

This financial report is designed to provide a general overview of the Oscoda-Wurtsmith Airport Authority finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Airport Manager, 3961 E. Airport Drive, Oscoda, Michigan 48750.

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
September 30, 2008  
With Comparative Totals for September 30, 2007

|   | <u>2008</u>          | <u>2007</u>          |
|---|----------------------|----------------------|
| <u>Assets</u>                                   |                      |                      |
| Current Assets                                  |                      |                      |
| Cash and Cash Equivalents (Note 2)              | \$ 1,317,575         | \$ 3,147,911         |
| Investments (Note 2)                            | 427,127              | 171,938              |
| Receivables:                                    |                      |                      |
| Accounts, Net                                   | 8,408                | 63,580               |
| Due from Local Units                            | 0                    | 12,688               |
| Due from State                                  | <u>0</u>             | <u>3,510</u>         |
| Total Current Assets                            | 1,753,110            | 3,399,627            |
| Noncurrent Assets                               |                      |                      |
| Capital Assets, Net (Note 3)                    | <u>30,343,007</u>    | <u>27,631,272</u>    |
| Total Assets                                    | <u>32,096,117</u>    | <u>31,030,899</u>    |
| <u>Liabilities</u>                              |                      |                      |
| Current Liabilities:                            |                      |                      |
| Accounts Payable                                | 417,809              | 179,707              |
| Deposits Payable                                | 34,438               | 19,717               |
| Deferred Revenue (Note 4)                       | <u>3,541,667</u>     | <u>4,962,988</u>     |
| Total Current Liabilities                       | 3,993,914            | 5,162,412            |
| Long-Term Liabilities:                          |                      |                      |
| Compensated Absences Payable (Note 5)           | <u>13,782</u>        | <u>40,554</u>        |
| Total Liabilities                               | <u>4,007,696</u>     | <u>5,202,966</u>     |
| <u>Net Assets</u>                               |                      |                      |
| Invested In Capital Assets, Net of Related Debt | 26,383,771           | 24,711,452           |
| Unrestricted                                    | <u>1,704,650</u>     | <u>1,116,481</u>     |
| Total Net Assets                                | <u>\$ 28,088,421</u> | <u>\$ 25,827,933</u> |

The accompanying notes to financial statements are an integral part of this statement.

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended September 30, 2008  
With Comparative Totals for the Year Ended September 30, 2007

|                                     | <u>2008</u>          | <u>2007</u>          |
|-------------------------------------|----------------------|----------------------|
| <u>Operating Revenue:</u>           |                      |                      |
| Landing Fees                        | \$ 2,091             | \$ 805               |
| Fuel Fees                           | 3,135                | 2,920                |
| Building Rental                     | 1,102,589            | 848,390              |
| Other Revenue                       | <u>45,832</u>        | <u>24,368</u>        |
| Total Operating Revenue             | <u>1,153,647</u>     | <u>876,483</u>       |
| <u>Operating Expenses:</u>          |                      |                      |
| Salaries and Wages                  | 251,696              | 233,903              |
| Payroll Taxes and Employee Benefits | 108,665              | 87,252               |
| Advertising                         | 5,418                | 1,510                |
| Bad Debt Expense                    | 18,126               | 20                   |
| Building Maintenance                | 13,866               | 209,072              |
| Compliance and Training             | 1,204                | 3,496                |
| Depreciation                        | 1,150,975            | 1,090,037            |
| Dues and Subscriptions              | 2,482                | 2,266                |
| Field Maintenance                   | 19,716               | 17,661               |
| Insurance and Bonds                 | 53,782               | 57,430               |
| Operating Supplies                  | 13,793               | 9,805                |
| Postage                             | 2,194                | 2,090                |
| Professional Fees and Services      | 116,684              | 83,617               |
| Radio Equipment Maintenance         | 4,075                | 4,272                |
| Rubbish Collection                  | 4,399                | 3,279                |
| Scholarships                        | 439                  | 2,534                |
| Travel                              | 2,881                | 3,486                |
| Utilities                           | 74,686               | 99,298               |
| Vehicle Maintenance                 | <u>61,902</u>        | <u>34,581</u>        |
| Total Operating Expenses            | <u>1,906,983</u>     | <u>1,945,609</u>     |
| Operating Loss                      | <u>(753,336)</u>     | <u>(1,069,126)</u>   |
| <u>Nonoperating Revenue</u>         |                      |                      |
| State Grants and Revenue            | 2,730,978            | 2,269,022            |
| Federal Grants and Revenue          | 87,628               | 264,329              |
| Interest and Investment Earnings    | 76,328               | 76,607               |
| Gain on Sale of Capital Assets      | <u>42,158</u>        | <u>0</u>             |
| Total Nonoperating Revenue          | <u>2,937,092</u>     | <u>2,609,958</u>     |
| Income Before Contributions         | 2,183,756            | 1,540,832            |
| Capital Contributions               | <u>76,732</u>        | <u>1,654,936</u>     |
| Change in Net Assets                | 2,260,488            | 3,195,768            |
| Net Assets - Beginning of Year      | <u>25,827,933</u>    | <u>22,632,165</u>    |
| Net Assets - End of Year            | <u>\$ 28,088,421</u> | <u>\$ 25,827,933</u> |

The accompanying notes to financial statements are an integral part of this statement.



OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

STATEMENT OF CASH FLOWS  
For the Year Ended September 30, 2008  
With Comparative Totals for the Year Ended September 30, 2007

|  | <u>2008</u>         | <u>2007</u>         |
|--|---------------------|---------------------|
| <u>Cash Flows From Operating Activities</u>  |                     |                     |
| Receipts From Customers  | \$ 997,081          | \$ 840,618          |
| Payments to Suppliers for Goods and Services   | (374,632)           | (535,812)           |
| Payments to Employees for Services   | <u>(387,133)</u>    | <u>(317,011)</u>    |
| Net Cash Provided (Used) by Operating Activities   | <u>235,316</u>      | <u>(12,205)</u>     |
| <u>Cash Flows From Capital and Related Financing Activities</u>                              |                     |                     |
| Proceeds from the Sale of Capital Assets   | 45,835              | 0                   |
| Federal Grants Received  | 100,316             | 287,585             |
| State Grants Received  | 1,517,990           | 3,482,010           |
| Capital Contributions Received   | 0                   | 830,180             |
| Acquisition and Construction of Capital Assets   | <u>(3,550,932)</u>  | <u>(2,630,821)</u>  |
| Net Cash Provided (Used) by Capital and Related Financing Activities                         | <u>(1,886,791)</u>  | <u>1,968,954</u>    |
| <u>Cash Flows From Investing Activities</u>  |                     |                     |
| Purchase of Investment Securities  | (250,000)           | 0                   |
| Interest on Investments  | <u>71,139</u>       | <u>68,641</u>       |
| Net Cash Provided (Used) by Investing Activities   | <u>(178,861)</u>    | <u>68,641</u>       |
| Net Increase (Decrease) in Cash and Cash Equivalents   | (1,830,336)         | 2,025,390           |
| Cash and Cash Equivalents at Beginning of Year (Note 1)                                      | <u>3,147,911</u>    | <u>1,122,521</u>    |
| Cash and Cash Equivalents at End of Year (Note 1)  | <u>\$ 1,317,575</u> | <u>\$ 3,147,911</u> |
| <u>Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities</u>  |                     |                     |
| Operating Loss   | \$ (753,336)        | \$ (1,069,126)      |
| Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities: |                     |                     |
| MDOT costs included in expenses  | 0                   | 171                 |
| Depreciation Expense   | 1,150,975           | 1,090,037           |
| Bad Debt Expense   | 18,126              | 20                  |
| Change in Assets and Liabilities:  |                     |                     |
| Accounts Receivable  | 37,046              | (36,519)            |
| Due from State   | 3,510               | 0                   |
| Accounts Payable   | (621)               | (879)               |
| Deposits Payable   | 14,721              | 654                 |
| Deferred Revenue   | (208,333)           | 0                   |
| Compensated Absences Payable   | <u>(26,772)</u>     | <u>3,437</u>        |
| Net Cash Provided (Used) by Operating Activities   | <u>\$ 235,316</u>   | <u>\$ (12,205)</u>  |

Supplemental Disclosures:

Noncash Operating Activities

The Authority recorded noncash activity in the form of writing off \$18,126 of accounts receivable for lease revenues in the current year and recognizing \$208,333 as building rents deferred from 2007 for building costs paid by tenant in exchange for future lease payments on occupied building.

Noncash Capital and Related Financing Activities

The Authority recorded noncash activity in the form of capital asset acquisition costs of \$76,732 being paid directly by the Michigan Department of Transportation.

The accompanying notes to financial statements are an integral part of this statement.

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda-Wurtsmith Airport Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of Authority Operations and Fund Types

The Oscoda-Wurtsmith Airport Authority operates under the supervision and control of a Board of seven members consisting of: the Supervisor for each of the Charter Townships of Oscoda and AuSable and the Township of Greenbush; appointees of the County Board of Commissioners for Iosco and Alcona Counties and two at-large members.

The accompanying basic financial statements of the Airport Authority have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Airport Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

**Proprietary Fund**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority's Enterprise Fund reports operations that provide services which are financed primarily by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

C. Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. Government wide financial statements report information about the Oscoda-Wurtsmith Airport Authority as a whole. The Authority has only one fund which is business-type in nature, so the financial statements present one set of statements that meets both the government-wide and fund requirements.

A statement of net assets provides information about the assets, liabilities, and net assets of the Authority at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy Authority obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

improvement of those assets. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operation purposes.

A statement of revenue, expenses and changes in net assets provides information about the Authority's financial activities during the year ended September 30, 2008. Revenue and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Operating revenues and expenses generally result from providing the use of building facilities and aeronautical activities. Other revenues, such as federal and state grants, FAA airport improvement grants designated for specific projects and contributions, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of maintaining airport property, administrative expenses, and depreciation on capital assets.

A statement of cash flows provides information about the Authority's sources and uses of cash and cash equivalents during the year ended September 30, 2008. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

D. Measurement Focus

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better off or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and repurchase agreements, and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

F. Receivables

Receivables generally consist of accounts (fees). All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The balances consist primarily of charges for airport services due from various customers.

The allowance for doubtful accounts at September 30, 2008 was \$0.

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently. Donated fixed assets are recorded at their fair market values as of the date received.

Capital assets are depreciated using the straight-line method over the following useful lives:

| <u>Descriptions</u>        | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements          | 15 years               |
| Buildings and Improvements | 10 - 40 years          |
| Machinery and Equipment    | 5 - 10 years           |

H. Capital Contributions

Capital Contributions consists of land and buildings received from the federal and state contract grants administered by the Michigan Department of Transportation. The federal revenues fall under the Single Audit Scope of the Michigan Department of Transportation.

I. Compensated Absences

The Authority reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability using the vesting method. An accrual for earned vacation is made based on accumulated vacation and the employee wage rates at year end taking into consideration limits specified in the Authority's termination policy.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Authority, these revenues are charges for services for building rentals and landing and fuel fees. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2008.

M. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

N. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

|                           |                     |
|---------------------------|---------------------|
| Cash and Cash Equivalents | \$ 1,317,575        |
| Investments               | <u>427,127</u>      |
| Total                     | <u>\$ 1,744,702</u> |

The breakdown between deposits and investments is as follows:

|  |                     |
|--|---------------------|
| Bank Deposits (Checking and Savings Accounts,<br>Certificates of Deposit)                | \$ 449,941          |
| Investments in Financial Institution Pooled Funds and<br>Repurchase Agreement Securities | 1,294,615           |
| Petty Cash and Cash on Hand  | <u>146</u>          |
| Total  | <u>\$ 1,744,702</u> |

As of September 30, 2008, the Authority had the following investments.

| <u>Investment Type</u>                  | <u>Fair Value</u>   | <u>Specific Identification Maturities</u> |
|---|---------------------|---|
| Primary Government:<br>Investment Pools | \$ 927,000          | Daily                                     |
| Repurchase Agreements -<br>Public Funds | <u>367,615</u>      | Daily                                     |
|   | <u>\$ 1,294,615</u> |   |

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

State law authorizes investments in accordance with Act 196, PA 1997 and in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The Authority's investment pool and repurchase agreement investment sweep accounts are held at National City Bank and both are unrated.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2008, \$327,127 of the Authority's bank balance of \$462,883 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The following are investments of the Authority that represent more than 5% of the Authority's total investments:

National City Bank investment sweep account consisting of repurchase agreements of public funds which represents 28% of the Authority's total investments.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, by; limiting investments to the types of securities approved in the Authority's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business.

At year end the Authority's investment in National City Bank's investment sweep account consisting of repurchase agreements of public funds was \$367,615. This investment was exposed to custodial credit risk because it was uninsured and held by the counterparty's trust department or agent, not in the Authority's name.

Interest Rate Risk and Foreign Currency Risk

The Authority's investment policy does not address interest rate risk and foreign currency risk.

Investments

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital asset activity follows:

|                                       | Balance<br>10/01/07  | Additions           | Deletions             | Balance<br>09/30/08  |
|---------------------------------------|----------------------|---------------------|-----------------------|----------------------|
| <u>Business-Type Activities</u>       |                      |                     |                       |                      |
| Capital Assets Not Being Depreciated: |                      |                     |                       |                      |
| Land                                  | \$ 1,614,313         | \$ 0                | \$ 0                  | \$ 1,614,313         |
| Construction in Progress              | <u>6,410,114</u>     | <u>3,663,899</u>    | <u>(1,221,272)</u>    | <u>8,852,741</u>     |
| Subtotal                              | <u>8,024,427</u>     | <u>3,663,899</u>    | <u>(1,221,272)</u>    | <u>10,467,054</u>    |
| Capital Assets Being Depreciated:     |                      |                     |                       |                      |
| Land Improvements                     | 10,849,192           | 76,732              | 0                     | 10,925,924           |
| Buildings and Improvements            | 11,960,879           | 1,317,801           | 0                     | 13,278,680           |
| Machinery and Equipment               | <u>4,880,713</u>     | <u>29,227</u>       | <u>(8,735)</u>        | <u>4,901,205</u>     |
| Subtotal                              | <u>27,690,784</u>    | <u>1,423,760</u>    | <u>(8,735)</u>        | <u>29,105,809</u>    |
| Less Accumulated Depreciation for:    |                      |                     |                       |                      |
| Land Improvements                     | (2,979,518)          | (721,239)           | 0                     | (3,700,757)          |
| Buildings and Improvements            | (522,951)            | (342,315)           | 0                     | (865,266)            |
| Machinery and Equipment               | <u>(4,581,470)</u>   | <u>(87,421)</u>     | <u>5,058</u>          | <u>(4,663,833)</u>   |
| Subtotal                              | <u>(8,083,939)</u>   | <u>(1,150,975)</u>  | <u>5,058</u>          | <u>(9,229,856)</u>   |
| Business-Type Activities Total        |                      |                     |                       |                      |
| Capital Assets - Net of Depreciation  | <u>\$ 27,631,272</u> | <u>\$ 3,936,684</u> | <u>\$ (1,224,949)</u> | <u>\$ 30,343,007</u> |



OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2008

NOTE 4 - DEFERRED REVENUE

The Authority deferred revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of deferred revenue are as follows:

|                        | <u>Unearned</u>     |
|------------------------|---------------------|
| Building Rental Income | \$ <u>3,541,667</u> |

NOTE 5 - LONG-TERM LIABILITIES

A. Compensated Absences Payable

The Authority has an accrued liability for accumulated vested vacation benefits of its employees. As of September 30, 2008, the accumulated vested vacation benefits of the employees of various Authority departments were as follows:

|  | Long-Term<br>Liability<br><u>09/30/08</u> |
|--|---|
| <u>Accrued Employee Benefits Payable</u> |   |
| Business-Type Activities                 | \$ <u>13,782</u>                          |

B. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Authority for the year ended September 30, 2008:

|                                 | <u>Balance<br/>10/01/07</u> | <u>Issues or<br/>Additions</u> | <u>Payments or<br/>Expenditures</u> | <u>Balance<br/>09/30/08</u> | <u>Due Within<br/>One Year</u> |
|---------------------------------|-----------------------------|--------------------------------|-------------------------------------|-----------------------------|--------------------------------|
| <u>Business-Type Activities</u> |                             |                                |                                     |                             |                                |
| Primary Government:             |                             |                                |                                     |                             |                                |
| Compensated Absences            | \$ <u>40,554</u>            | \$ <u>0</u>                    | \$ <u>(26,772)</u> *                | \$ <u>13,782</u>            | \$ <u>0</u>                    |

\*Represents net of additions and retirements for the year.

NOTE 6 - OPERATING LEASE

The Airport Authority, through assignment from Oscoda Township except for utilities, has a lease with the United States Air Force for various facilities and offices located on the former Wurtsmith Air Force Base, Iosco County, Michigan. The lease term is indefinite and the Authority was not required to pay any rental payments for the year ended September 30, 2008.

OSCODA-WURTSMITH AIRPORT AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2008

NOTE 7 - RETIREMENT PLAN

The Airport Authority has a non-standardized money purchase pension plan with ING Life Insurance and Annuity Company, a deferred contribution pension plan, effective January 1, 1995 and as amended January 1, 2002. All full time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, have completed one year of service and have attained age 21. Vesting is 100% after six years of participation in the plan.

The Airport Authority is required to contribute 10% of the annual compensation of all eligible participants.

During the year, the Airport Authority's required and actual contributions amounted to \$20,939.

No pension provision changes occurred during the year that affected the required contributions to be made by the Airport Authority or its employees. Plan provisions and contribution requirements are established and may be amended by the Airport Authority Board.

NOTE 8 - UNEMPLOYMENT COMPENSATION

The Authority is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Authority must reimburse the Employment Agency for all benefits charged against the Authority. Accrued unemployment compensation was \$0 as of September 30, 2008.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 10 - COMMITMENTS

The Authority has contractual commitments in the amount of \$38,610 outstanding at September 30, 2008.

**Construction contracts**

As of September 30, 2008, the Authority had the following construction contracts in progress:

| <u>Project</u> | <u>Total Contract</u> | <u>Remaining<br/>Construction<br/>Commitment at<br/>September 30, 2008</u> | <u>Contract Payable at<br/>September 30, 2008</u> |
|----------------|-----------------------|--|---|
| Hangar 8       | \$ <u>183,368</u>     | \$ <u>38,610</u>   | \$ <u>21,721</u>                                  |

NOTE 11 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations.



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James L. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Herman A. Bertuleit

October 24, 2008

Management and Members of the Board  
Oscoda Wurtsmith Airport Authority  
Oscoda, Michigan

We have conducted the audit of the financial statements of the business-type activities of Oscoda Wurtsmith Airport Authority as of and for the year ended September 30, 2008 and have issued our report dated October 24, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the Airport during the audit and met with management on November 14, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board, others within the Airport and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Stephenson, Gracik & Co., P.C.*

## **Appendix 1**

### **Communication to Those Charged with Governance**

#### **Responsibilities under generally accepted auditing standards**

As stated in our engagement letter dated August 22, 2005, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

#### **Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated August 22, 2005.

#### **Significant Audit Findings**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Airport during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

#### **Difficulties Encountered During the Audit**

We encountered no difficulties during the audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on November 14, 2008.

#### **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

**Appendix 1**  
**Communication to Those Charged with Governance**

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

**Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

**Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

## **Appendix II Management Comments**

In planning and performing our audit of the financial statements of Oscoda Wurtsmith Airport Authority as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Oscoda Wurtsmith Airport Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oscoda Wurtsmith Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oscoda Wurtsmith Airport Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a material weakness.

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Oscoda Wurtsmith Airport Authority's financial statements. However, if at any point in the audit we as auditors are part of the Airport's control system for producing reliable financial statements, auditing standards indicate that the Airport has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

#### **View of Responsible Officials:**

The Oscoda Wurtsmith Airport Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The Oscoda Wurtsmith Airport Authority's response to the finding in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on them.

We have also noted another item we feel could improve your internal controls or operating efficiencies. This item is not considered a significant deficiency or material weakness but is presented for your consideration.

## REVIEW OF BANK RECONCILIATIONS

During our audit procedures related to cash, we observed that bank reconciliations are prepared by the Airport's accountant. These bank reconciliations are not reviewed by any other individual. The accountant also prepares billings for tenants for lease revenue and prepares all checks for accounts payable. The accountant is also the only individual with access to the Airport's accounting software.

We recommend the Airport Manager review bank reconciliations on a monthly basis and indicate this review with initials or signature to mitigate the risk of misappropriation of assets due to the lack of segregation of duties in this area.

## STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

| <u>Comment</u>                                       | <u>Implemented/<br/>Situation<br/>Corrected</u> | <u>Management<br/>Decision To<br/>Not Implement</u> | <u>Progress<br/>Made</u> | <u>Situation<br/>Still<br/>Exists</u> |
|--|---|---|--------------------------|---------------------------------------|
| Separation of Duties in the Performance of Functions |   |   | X                        |                                       |
| Financial Statement Preparation                      |   |   |                          | X                                     |